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Scurry-Rainbow Oil Limited



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annual report 1973

Scurry-Rainbow Oil Limited

Head Office: 709 - 8th Avenue S.W., Calgary, Alberta T2P 1H5

BOARD OF DIRECTORS

Peter Abt, Calgary, Alberta
President of the Company

Ole Bardahl, Seattle, Washington
President, Bardahl Manufacturing Corporation and
Bardahl International Corporation

John F. Langston, Calgary, Alberta
Petroleum Engineer

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Vice-President, Cadillac Explorations Limited

H. Neil Mallon, Dallas, Texas
Retired Manufacturing Executive

Sidney A. Swensrud, Naples, Florida
Retired Petroleum Executive

Frank E. Taplin, Princeton, New Jersey
Chairman of the Board of Directors of the Company and
Director of the North American Coal Corporation

Vernon F. Taylor, Jr., Denver, Colorado
Investor and Chairman of the Executive Committee
of the Company

EXECUTIVE OFFICERS

Frank E. Taplin, Chairman of the Board

Peter Abt, President

Francis C. Finn, Vice-President

Eugene H. Charko, Treasurer

Stanley W. Jones, Secretary

REGISTRAR & TRANSFER AGENTS

Guaranty Trust Company of Canada, Calgary, Alberta;
Toronto, Ontario; Montreal, P.Q.; Vancouver, B.C.

The Canadian Bank of Commerce Trust Company,
New York, N.Y.

STOCK LISTINGS

American Stock Exchange, New York, N.Y.

Toronto Stock Exchange, Toronto, Ontario

Vancouver Stock Exchange, Vancouver, B.C.

AUDITORS

Price Waterhouse & Co., Calgary, Alberta

ANNUAL MEETING

The annual meeting of shareholders will be held on
Tuesday, February 26, 1974 at 10:00 a.m. in the Cal-
gary Inn, Calgary, Alberta. Formal notice of this
meeting and proxy material has been mailed to all
registered shareholders with this report.

REPORT IN BRIEF

	1973	1972
OPERATING RESULTS		
Production		
Crude oil – net barrels per day ..	7,220	7,380
Natural gas – net mcf per day ..	12,885	12,585
Financial		
Cash flow from operations	\$ 6,078,000	\$ 4,827,000
per share	2.34	1.86
Net earnings	1,295,000	292,000
per share	.50	.11
Capital expenditures	7,249,000	4,948,000
Wells Drilled		
Successful oil and gas wells	37	41
Wells dry and abandoned	40	31
YEAR-END POSITION		
Financial		
Working capital	\$ 7,569,000	\$ 7,816,000
Long-term debt	17,792,000	17,873,000
Oil and Gas Wells		
Total gross wells	5,345	5,257
Net working interest wells	232	236
Net royalty interest wells	236	231
Land Holdings		
Total gross acreage	14,538,000	12,868,000
Net oil and gas acreage	5,414,000	4,819,000
Net mining acreage	217,000	221,000

This report covers the fiscal year ended September 30, 1973 and all comparative figures and illustrations for prior years are on the same fiscal year basis. All references to "Scurry-Rainbow" and "the Company", unless otherwise indicated, are to Scurry-Rainbow Oil Limited and its subsidiaries.

TO THE SHAREHOLDERS

Scurry-Rainbow's oil and gas exploration activities during 1973 ranged throughout Canada, from the high Arctic to the waters off Canada's East Coast. International operations were carried out in the States of North Dakota, Utah and Wyoming, in England and in the waters off the Shetland Islands in the North Sea. Mining exploration was based in Alberta, British Columbia and the Yukon Territory in Canada, at several locations in the United States and in Mexico. The results of the Company's foreign programs in particular have been very encouraging and these programs will be further expanded during 1974.

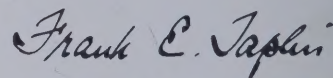
In fiscal 1973, Scurry-Rainbow realized net earnings of \$1,295,000, equivalent to 50¢ per share as compared with \$292,000 or 11¢ per share in 1972. Gross revenue of \$9,895,000 was the highest ever recorded by the Company, as was the cash flow of \$6,078,000 which is equivalent to \$2.34 per share. This improvement in financial results reflects the higher prices for crude oil, natural gas and plant products received during the year. Prospects for further oil and gas price increases in Western Canada remain very good but recent actions taken by the Canadian federal and provincial governments have minimized the net benefit of such higher prices to the producing companies.

Canada has abundant energy resources, the orderly development of which will require not only huge financial outlays but the ongoing co-operation of the industry with all levels of government. If our governments continue the artificial and arbitrary price controls currently being practiced and proceed with present plans for excessive and in some cases even confiscatory taxation, we will not have a solution to our current supply problems in the foreseeable future.

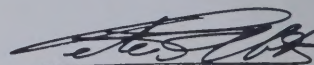
The recent spectacular increases in the international price of crude oil have greatly enhanced the Company's prospects for the development of its large coal holdings. The concept that alternative fuels should be priced on a commodity value basis is gaining much greater acceptance in today's market place. In terms of heating value, one ton of our

coal is equal to 4.5 barrels of crude oil. The international oil price increases have restored the competitive position of coal in the thermal production of electricity. We plan to continue an active program for the orderly development of Scurry-Rainbow's coal holdings.

The massive demand for energy on a worldwide basis will require unprecedented exploration and development expenditures in the seventies and beyond. Your Company, with its strong cash flow and working capital position and its large reserves of thermal and coking coal, is in an excellent position to benefit from this future activity.



Chairman of the Board



President

January 14, 1974



REVIEW OF OPERATIONS

EXPLORATION & DEVELOPMENT

During the year under review, Scurry-Rainbow was active in exploration in the Arctic Islands, Western Canada, off Canada's East Coast, in the North Sea and for the first time, entered the search for oil and gas in the "Lower 48" states of the United States with operations in Wyoming, Utah and North Dakota. The Company participated in the drilling of 77 wells, of which 21 were completed as oil wells and 16 as gas wells.

Alberta

One of the principal areas of activity for Scurry-Rainbow during 1973 was the north Marten Hills area of central Alberta. The Company participated in the drilling of twelve wells in this shallow gas area immediately north of the main Marten Hills Wabiskaw-Wabamun gas field. The drilling program established the presence of large gas reserves and earned for Scurry-Rainbow an interest in 53,760 gross (15,280 net) acres. Four of the wells have been cased for production. Subsequent to the drilling program, the Company acquired a 25% net interest in a natural gas licence comprising 22,400 gross acres of Crown land surrounding these successful wells and with other land acquisitions in the same area, the Company now holds a total of 87,494 gross (29,747 net) acres at Marten Hills. In 1974 a further nine wells will be drilled to earn an additional 36,800 gross (10,720 net) acres for the Company in the Marten Hills exploratory area. It is anticipated that production from Company wells in this area will be connected to pipelines and be marketed in 1975.

In the Coleman area of southwestern Alberta, sufficient gas reserves have now been established by exploratory drilling to warrant the construction of a gathering system to deliver gas to transmission facilities. The sale of gas is expected to begin before the end of 1974 and in order to establish the deliverability rates two development wells are being drilled.

British Columbia

During the year the Company continued its exploration and development program in the Eagle field of northeast British Columbia immediately north of

the town of Fort St. John. Of the seven wells drilled in the area during the year, in which the Company has a 50% working interest, four were completed as oil or gas producers. One of the oil wells, Scurry CanPlac Eagle 6-27-84-18, was the first to qualify under the British Columbia New Well Incentive Program whereby a discovery well is granted royalty-free status for three years from the date of first production. The other two oil wells were one mile step-outs to the north and south of the discovery well and will qualify for royalty relief status under the new British Columbia Incentive Regulations. The fourth well was a step-out to the northwest of the oil discovery well and was completed as a gas well.

Oil production from this new field, established in the Belloy formation, is presently averaging 525 barrels per day. The Company's net share of production is approximately 240 barrels per day. Two exploratory wells are planned in this general area and additional development drilling in the Eagle and Cecil Lake fields is planned for 1974 to increase oil production rates and to delineate the gas reservoirs discovered to date.

Saskatchewan

During the year a seismic exploration program was conducted on the Company's major land holdings in southeastern Saskatchewan and two deep prospects were delineated in the south Estevan area. Negotiations are currently underway involving a multiple deep-well drilling program on these prospects.

Arctic Islands

Scurry-Rainbow, through its 51% ownership of Plains Petroleum Limited, participated in exploration activity in Canada's Arctic Islands where Plains holds interests varying from 1.2% to 11% in 2,154,835 gross acres.

Three wells were drilled on Axel Heiberg Island where Plains holds a 1.2% net interest in permits covering 553,611 acres. One well on Company acreage, Horn R Panarctic et al Depot PT L-24, was drilled to a total depth of 13,501 feet before being abandoned. The other two wells (Imp Panarctic et al Mokka A-02 drilled three miles west of the boundary of Plains acreage to 10,827 feet and Panarctic CS May Point H-02 drilled immediately east of the Plains acreage block to a total depth of 9,813 feet) were abandoned after failing to find commercial production.

On the Isachsen Peninsula of Ellef Ringnes Island, one of the most active exploration areas in the Arctic Islands, Plains has an 11% interest in 437,881 gross acres where an exploratory test, Panarctic Tenneco et al Pollux G-60, was drilled to a total depth of 11,249 feet. Subsequently, Panarctic Tenneco et al Isachsen J-37 was drilled three miles north of the Plains acreage block to a total depth of 13,790 feet. These two wells, which were drilled at no cost to the Company, were abandoned after failing to find production. Extensive seismic exploration is being conducted on this part of Ellef Ringnes Island and further drilling is contemplated in the coming year.

Wells Drilled on Company Acreage

	Alta.	B.C.	Sask.	N.W.T.	U.S.A.	U.K.	1973 Total	1972 Total
Oil wells	1	8	11	—	—	1	21	29
Gas wells	12	4	—	—	—	—	16	12
Dry holes	20	4	4	2	3	7	40	31
Total gross wells	<u>33</u>	<u>16</u>	<u>15</u>	<u>2</u>	<u>3</u>	<u>8</u>	<u>77</u>	<u>72</u>
Net working interest wells								
Oil and gas	2.0	2.0	—	—	—	.5	4.5	4.2
Dry holes	4.1	1.2	—	.1	2.0	3.5	10.9	2.8
Total net wells	<u>6.1</u>	<u>3.2</u>	<u>—</u>	<u>.1</u>	<u>2.0</u>	<u>4.0</u>	<u>15.4</u>	<u>7.0</u>
Net royalty interest wells								
Oil and gas	2.1	—	6.6	—	—	—	8.7	10.7
Dry holes	3.7	.2	4.1	—	—	—	8.0	14.0
Total net wells	<u>5.8</u>	<u>.2</u>	<u>10.7</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>16.7</u>	<u>24.7</u>

Mackenzie Delta

Scurry-Rainbow has interests in 1,203,696 gross (319,082 net) acres in the Tertiary-Cretaceous basin underlying the Mackenzie Bay area of the Beaufort Sea. During the year under review, 350 miles of detailed geophysical exploration was carried out on this prospect, which encompasses both onshore and offshore acreage.

Nova Scotia — Onshore

In the Chignecto Bay area of Nova Scotia, another company has carried out a seismic exploration program on a 80,640 acre licence held by Scurry-Rainbow. Under the terms of an option agreement, that company will have the right to drill one deep test well in each of the years 1974 and 1975 to earn a 50% interest in a 69,120 acre portion of the licence.

Nova Scotia — Offshore

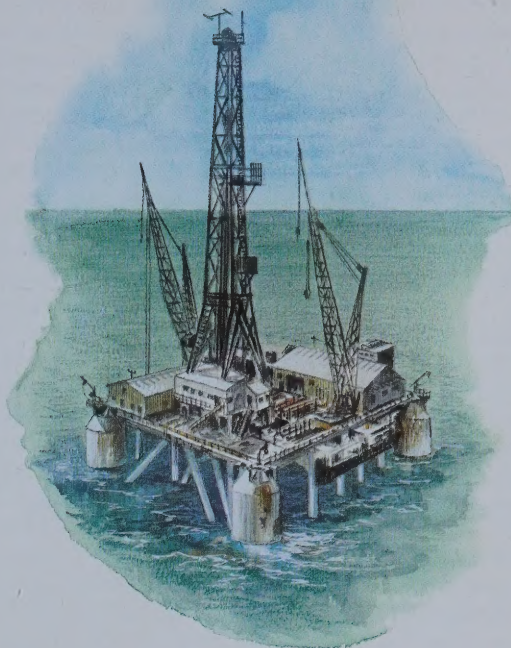
A three-year program of geophysical and geological exploration on Canada's eastern continental shelf was commenced in 1973. Detailed geophysical exploration will continue in 1974 and 1975 on the 2,718,538 permit acres offshore from Yarmouth in which the Company holds a 15% interest and on the 460,007 permit acres offshore from Halifax in which Scurry-Rainbow has a 20% interest.

United Kingdom — Onshore

During the year Scurry-Rainbow participated in the exploration of the onshore extension of the North Sea Permian Basin by drilling eight exploratory wells in Yorkshire and northern Lincolnshire on the east coast of England. All of the wells drilled indicated the presence of excellent reservoirs both in the Permian carbonates and in the Rotliegendes sandstone which is the primary producing horizon in the southern North Sea gas area where reserves of over 50 trillion cubic feet of natural gas have been discovered to date.

One of the wells, Candecca Scurry Axholme No. 1, had a significant oil rise on drill stem test in the Coal Measures series of Carboniferous age from which formation oil is produced some 16 miles to the south of the Company's acreage block. The well is currently suspended, pending economic evaluation of the surrounding lands.

As a follow-up to drilling operations, an extensive program of seismic record reprocessing and re-interpretation is being carried out. When this evalu-



ation is completed, additional seismic exploration is scheduled to delineate further prospects and to follow-up the encouraging results of the drilling program. Additional drilling is scheduled for late 1974.

United Kingdom — Offshore

The East Shetlands Basin in the northern part of the North Sea is the most exciting oil and gas exploration area in the free world today. In this basin, Scurry-Rainbow holds a 20% interest in Block 3/7 in an area where three large oil pools have been discovered to date. Two wells are currently drilling on lands offsetting this block. One well is located on Block 3/8 and the other is on Block 3/3. Both of these wells are being drilled to test one of the largest known structures in the North Sea, a portion of which extends into the 3/7 block.

During the year under review, the Company participated with others in the acquisition and interpretation of an extensive seismic reconnaissance program in the North Sea. The results of this program will enable the Company to evaluate those acreage blocks available for negotiation, particularly the acreage designated to be awarded in the United Kingdom sector in late 1974.

United States

Wyoming

During 1973 Scurry-Rainbow acquired an interest in an 81,324 acre block in the Washakie Basin of southern Wyoming by the drilling of a deep test well to a total depth of 12,240 feet. A further well to 8,000 feet is contemplated on this acreage during 1974 after a seismic exploration program has been completed and interpreted. The Washakie Basin, a relatively unexplored portion of the Greater Green River Basin, is now an attractive exploration area as a result of the increased crude oil demands and the higher wellhead prices now being received in the United States.

Utah

In the Uintah Basin of Duchesne County, Scurry-Rainbow has acquired an interest in a number of leases totalling 3,166 gross acres. The Company's interests range from less than 1% to over 14% and to date a total of 167 net acres have been earned by participating in drilling operations.

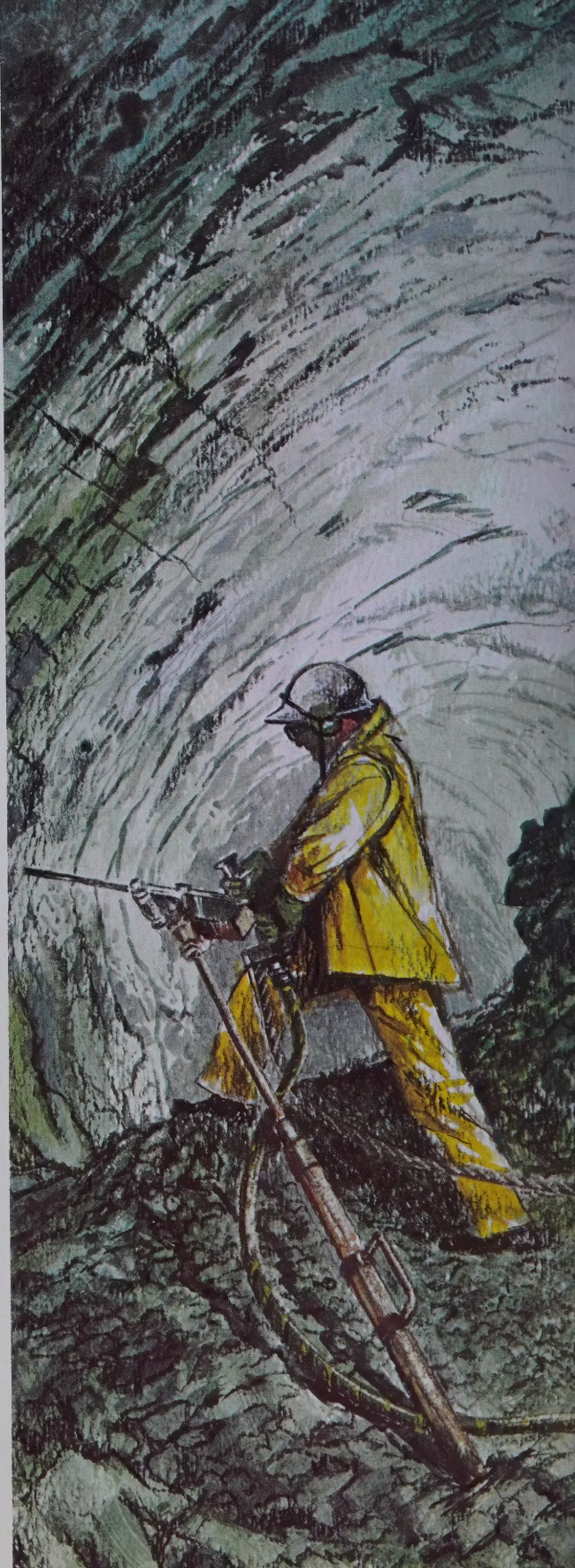
North Dakota

During the year Scurry-Rainbow drilled two shallow exploratory wells on a 186,572 gross (72,614 net) acre block on the eastern flank of the Williston Basin in southern North Dakota. These wells were drilled to test horizons similar to those producing oil in the Bell Creek field of Montana and both of them showed geological promise. Additional exploratory drilling carried out since the Company's year end has not to date established any commercial production.

Alaska

The Company holds 20,134 gross (10,067 net) acres in the Bristol Bay area on the Alaska Peninsula. A deep exploratory well drilled during the year, in which the Company participated by acreage contribution, encountered a thick volcanic lava section and was abandoned at 15,015 feet without reaching its ultimate objective. A recent major hydrocarbon discovery in the Cathedral River area of Bristol Bay should act as a stimulant for considerable exploration drilling on the Alaska Peninsula during the next few years.

On the North Slope of Alaska, the Company holds priority filing rights on 285,305 net acres south of the Prudhoe Bay oil field. With the approval of the Trans Alaska Pipeline, it is anticipated that the United States Department of the Interior will expedite the legislation which is required to issue the Federal oil and gas leases on lands subject to Alaskan native claims.



MINING

Scurry-Rainbow continued an active mining program in 1973, with particular emphasis on the evaluation of coal in Alberta and British Columbia and the exploration for silver and associated base metals in the Yukon Territory and Mexico.

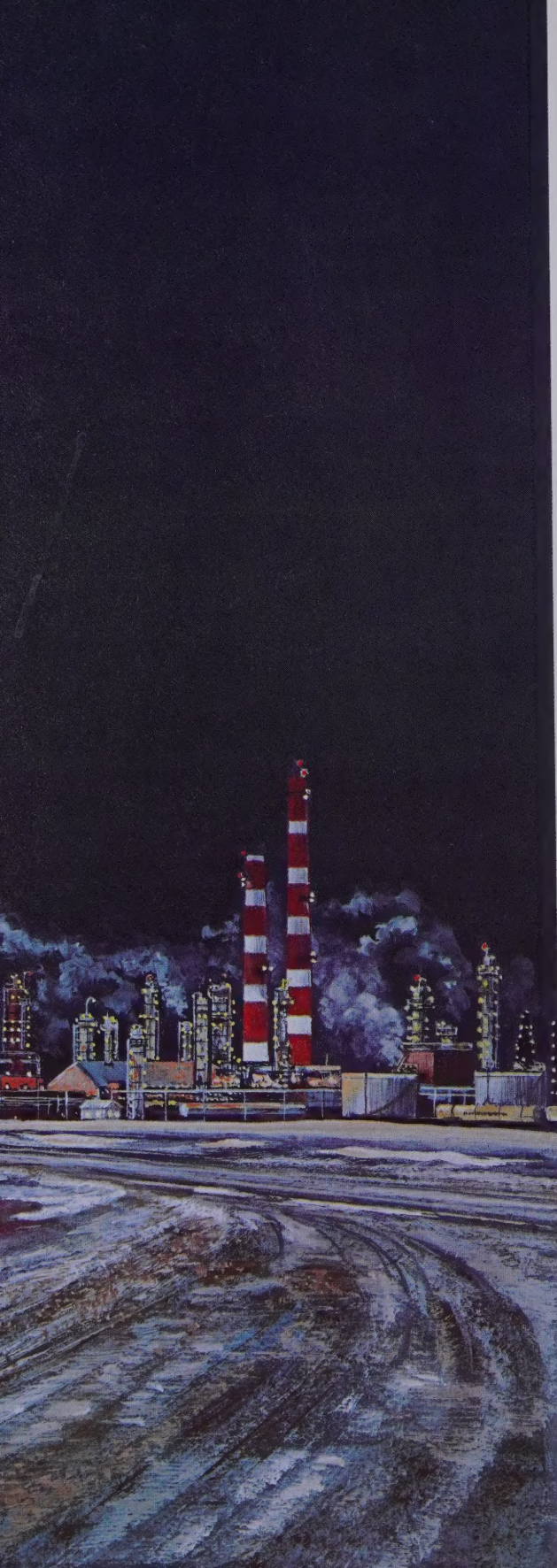
During the year, Scurry-Rainbow entered into agreements with Consolidation Coal Company of Canada covering the Company's coal holdings in the Blairmore and Ram River areas of Alberta. The Blairmore agreement gives Consol an option to purchase a 50% interest in the coal properties until May, 1975 and provides for Consol to make payments totalling \$1,200,000 during the option period plus a further \$1,000,000 prior to commencement of mining operations. Consol made its initial option payment of \$200,000 in May, 1973 and subsequently began an evaluation program on the Blairmore properties. To date, over 30,000 feet of drilling has been carried out in testing the large reserves of metallurgical and high grade thermal coal underlying the property.

In addition to its Blairmore and Ram River properties, the Company examined several other sub-bituminous coal properties in Alberta and has recently made application for Crown rights covering 36,000 acres of lands amenable to mining operations.

No significant coal expenditures were made in British Columbia during the year as the Company's exploration program on its Elk River property was completed in 1972. This property has excellent reserves of metallurgical coal and the Company is now formulating plans to develop the property to take advantage of the rapidly increasing demand for high grade coal.

During 1973, Scurry-Rainbow conducted a comprehensive assessment of base and precious metal deposits throughout Canada, the United States and Mexico. Major exploration programs were carried out in Zacatecas, Mexico and at Bullion Mountain in the Yukon Territory. Operations on the Company's silver claims at Bullion Mountain are currently suspended, pending evaluation of the results of trenching and drilling tests completed to date. In Zacatecas, Mexico, the Company is continuing exploration and evaluation programs on a mine containing a rich silver-lead-zinc antimony vein system. Present indications are that the Company will be able to make a production decision with respect to this Mexican property by the third quarter of 1974.

Mining Acreage	Gross	Net
Coal mining properties	98,112	88,512
Potash leases	83,238	83,238
Mining claims	96,253	44,821
	<u>277,603</u>	<u>216,571</u>
Canada		
Alberta	66,752	66,752
British Columbia	74,201	30,477
Saskatchewan	101,277	97,683
Yukon	13,720	4,116
Northwest Territories	5,674	5,674
Ontario	3,560	1,512
Other provinces	1,260	1,198
Foreign jurisdictions	11,159	9,159
Total acreage at Sept. 30, 1973	<u>277,603</u>	<u>216,571</u>
Total acreage at Sept. 30, 1972	<u>274,978</u>	<u>220,558</u>



PRODUCTION

Crude oil production in 1973 totalled 2,635,000 barrels for an average of 7,220 barrels per day, down 2% from the 1972 daily average of 7,380 barrels. Total revenue from the sale of crude oil, however, increased \$866,000 or 12% to \$8,125,000 for the year as a result of the progressively higher selling prices which improved the Company's average price realization to \$3.08 per barrel from \$2.69 per barrel in 1972. Western Canadian crude oil prices were increased an aggregate of 95¢ per barrel during the period from November, 1972 to August, 1973 and the Company is now receiving an average price of \$3.65 per barrel for the sale of its oil production.

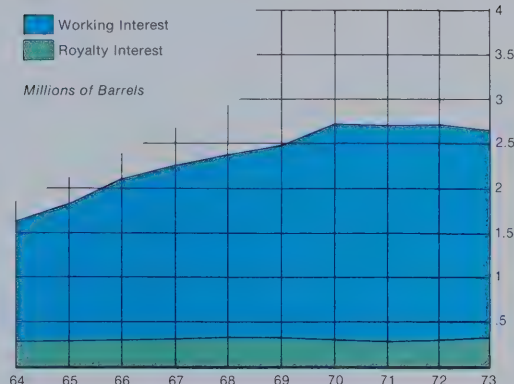
During 1973 oil production gains were realized in Alberta and Manitoba while declines were recorded for British Columbia and Saskatchewan. New production from the Eagle field in British Columbia, which commenced in the latter part of the fiscal year, initially added 240 net barrels to the Company's daily average and will more than offset declines in other British Columbia fields during 1974.

Crude Oil Production	1973	1972
Alberta	868,939	777,040
British Columbia	565,404	594,033
Saskatchewan	1,151,308	1,285,983
Manitoba	49,565	44,140
Net barrels for the year ...	<u>2,635,216</u>	<u>2,701,196</u>
Average per day	<u>7,220</u>	<u>7,380</u>
Natural Gas Production	1973	1972
Alberta	4,519,736	4,463,069
British Columbia	166,839	143,082
Ontario	15,724	—
Net mcf for the year	<u>4,702,299</u>	<u>4,606,151</u>
Average per day	<u>12,885</u>	<u>12,585</u>
Sales Revenue	1973	1972
Crude oil	\$8,124,571	\$7,258,727
Natural gas	802,227	744,320
Condensate	266,191	196,972
Sulphur	105,889	59,320
Other products	86,541	81,695
Total sales revenue	<u>\$9,385,419</u>	<u>\$8,341,034</u>

Natural gas production in 1973 totalled 4,702,000 mcf for an average of 12,885 mcf per day, up 2% over the 1972 daily average of 12,585 mcf. A net price of 17.1¢ per mcf was obtained for 1973 gas sales, compared with 16.2¢ per mcf in 1972, and total revenue from gas sales increased \$58,000 or 8% to \$802,000 for the year. Substantially higher prices resulting from renegotiation of the Company's gas sale contracts during 1973 became effective after the end of the fiscal year and the Company is now realizing an average price of 25¢ per mcf from the sale of its working interest gas production.

Condensate sales of \$266,000, sulphur sales of \$106,000 and other product sales of \$86,000 contributed \$120,000 to the total improvement in sales revenue. In the 1973 fiscal year 89,210 barrels of condensate were sold at an average price of \$2.98 per barrel and 20,248 long tons of sulphur realized a net price of \$5.23 per long ton. The 1972 sales of these products were 78,024 barrels of condensate at \$2.52 per barrel and 12,658 long tons of sulphur

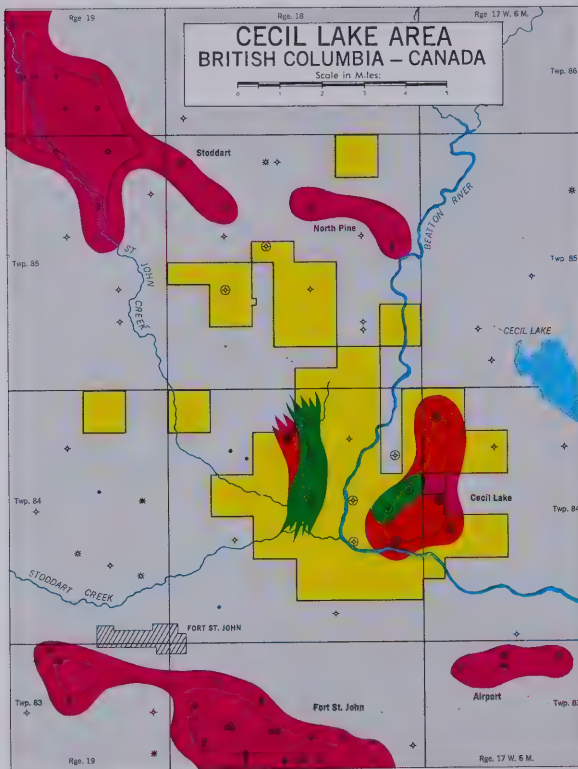
Crude Oil Production 1964-1973



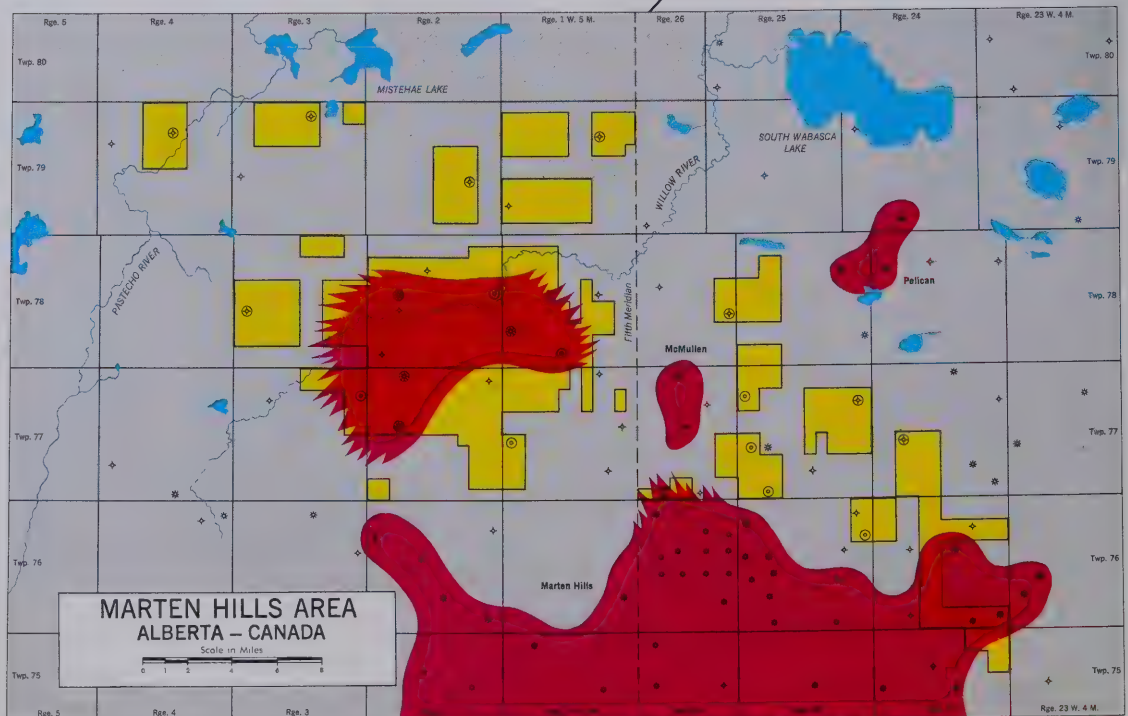
at \$4.69 per long ton. Total revenue from the sale of all products in 1973 amounted to \$9,385,000 which is an increase of \$1,044,000 or 13% over the previous year.

Oil and Gas Wells

	Alberta	British Columbia	Saskatchewan	Manitoba	1973 Total	1972 Total
Unitized Wells						
Oil wells	1,763	259	2,360	37	4,419	4,367
Gas wells	381	—	—	—	381	340
Total unitized	2,144	259	2,360	37	4,800	4,707
Non-unitized Wells						
Oil wells	103	33	247	31	414	431
Gas wells	71	57	3	—	131	119
Total non-unitized	174	90	250	31	545	550
Total gross wells	2,318	349	2,610	68	5,345	5,257
Net Working Interest Wells						
Oil wells	43.3	27.3	120.2	14.3	205.1	210.8
Gas wells	20.2	5.8	.4	—	26.4	25.3
Total net wells	63.5	33.1	120.6	14.3	231.5	236.1
Net Royalty Interest Wells						
Oil wells	30.8	1.5	186.5	.9	219.7	216.0
Gas wells	12.1	4.1	.4	—	16.6	14.9
Total net wells	42.9	5.6	186.9	.9	236.3	230.9

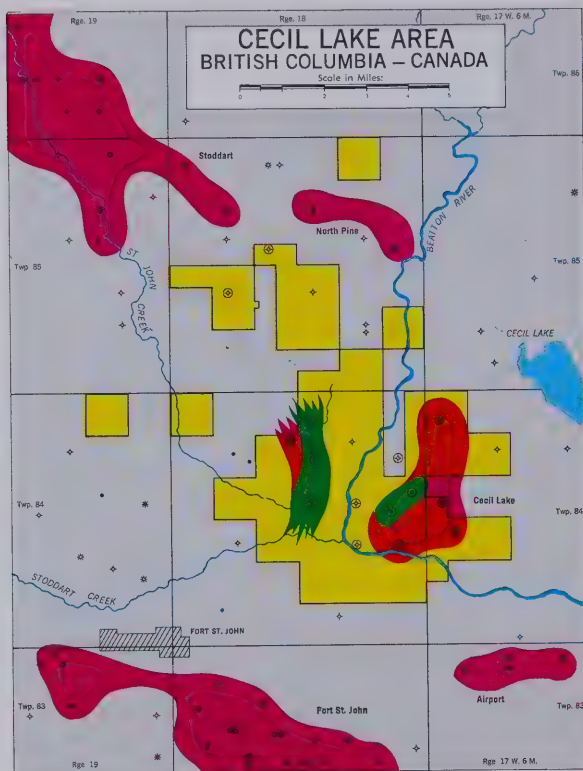


Scurry - Rainbow Oil Limited
And Subsidiary Companies
OIL & GAS ACREAGE HOLDING

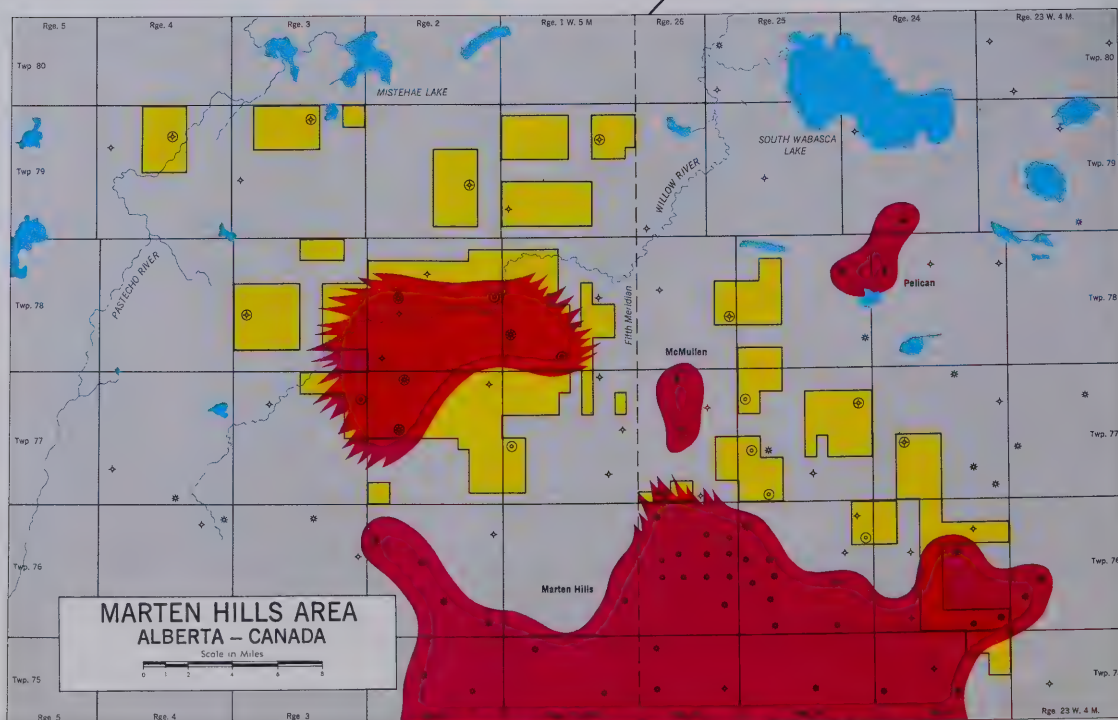


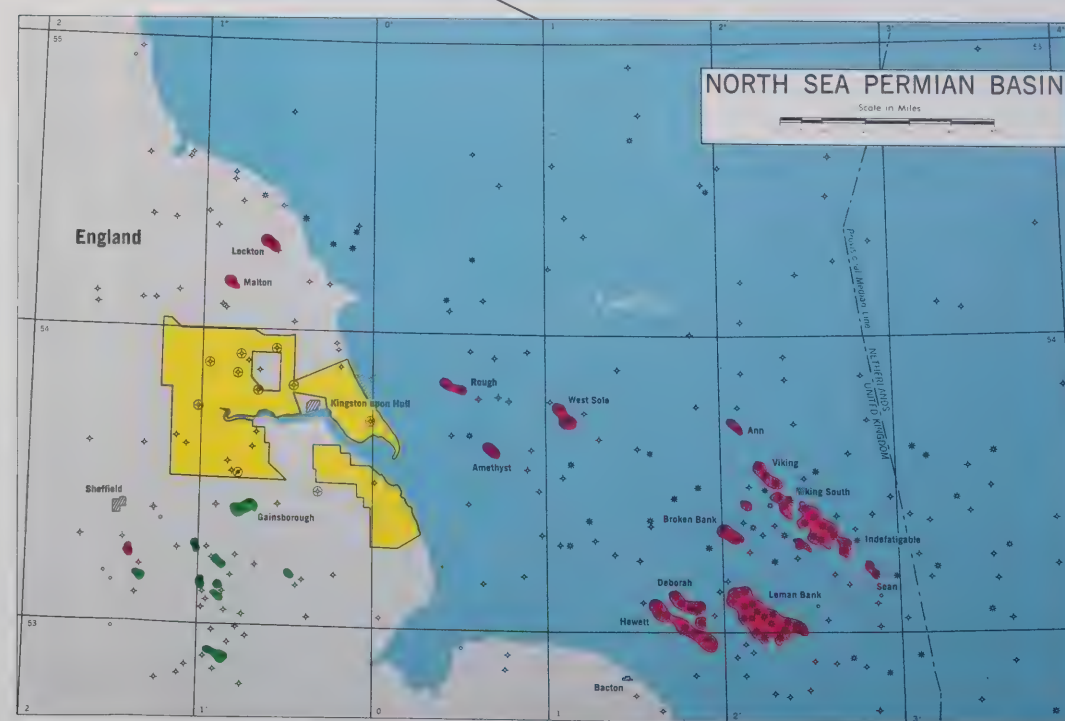
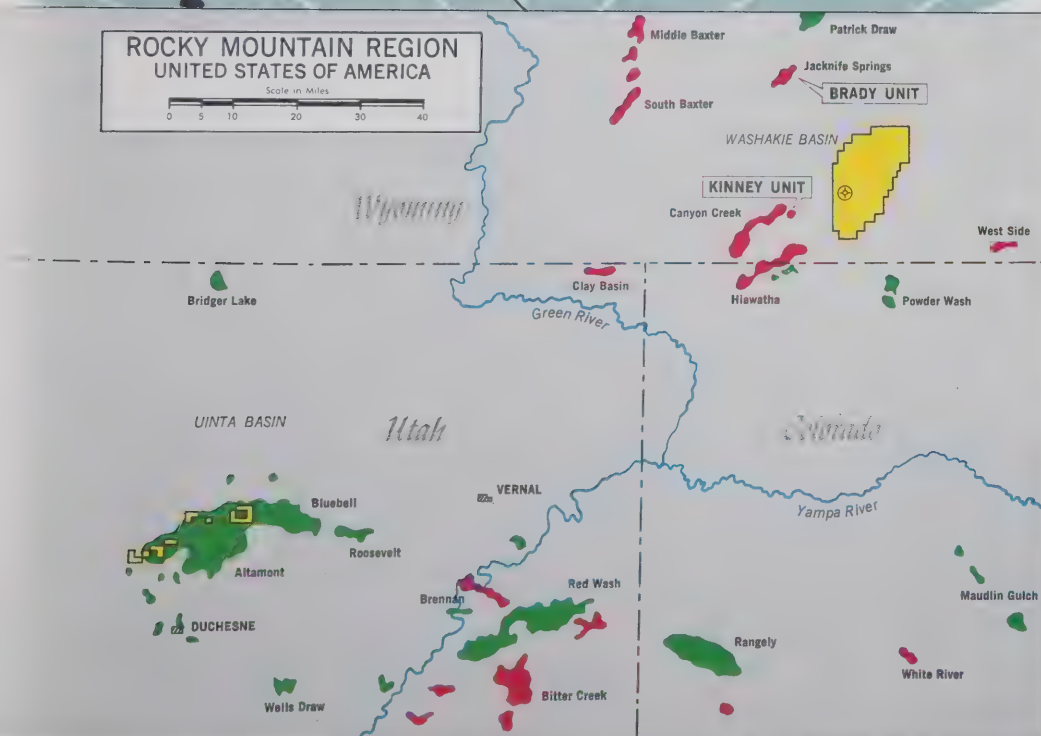
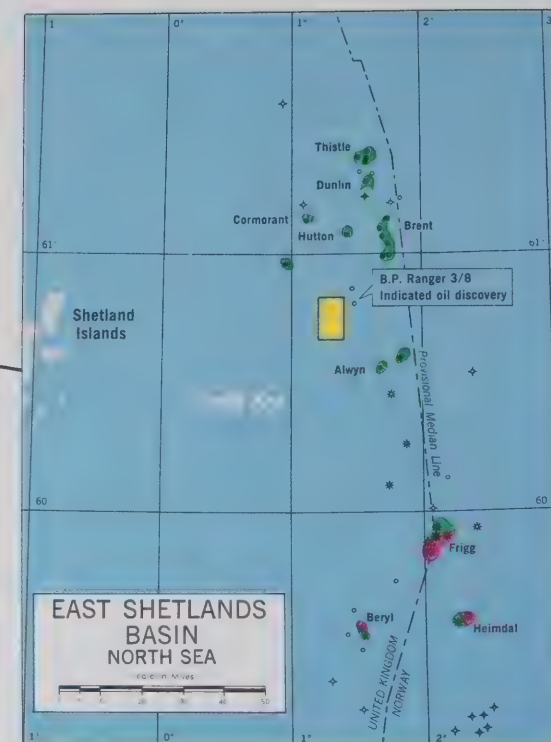
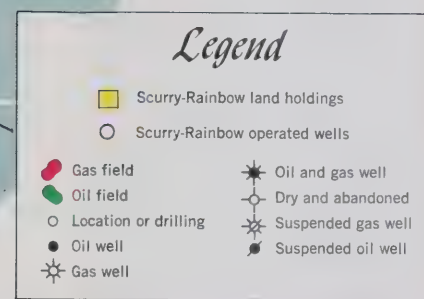
OIL AND GAS ACREAGE

	Gross Acres	Net Working Interests	Net Mineral Interests	Net Royalty Interests
Petroleum and natural gas leases	2,406,661	1,217,577	—	—
Gross overriding royalties on leases	175,352	—	—	37,039
Reservations and permits	9,025,370	2,287,640	—	—
Oil and gas titles	138,924	—	63,220	—
Gross royalties in freehold land	301,338	—	—	60,307
Mineral titles and mineral leases	2,212,878	—	1,748,721	—
	<u>14,260,523</u>	<u>3,505,217</u>	<u>1,811,941</u>	<u>97,346</u>
Western Canada				
Alberta	1,556,170	484,456	11,814	92,006
British Columbia	737,119	101,596	—	4,257
Saskatchewan	2,712,873	276,379	1,772,854	818
Manitoba	41,272	3,794	27,273	265
Northern Canada				
Arctic Islands	2,154,835	164,754	—	—
Northwest Territories	1,360,168	379,872	—	—
Eastern Canada				
Ontario	3,117	1,870	—	—
Quebec	853,046	655,001	—	—
Nova Scotia	3,259,185	580,422	—	—
Total Canadian acreage	<u>12,677,785</u>	<u>2,648,144</u>	<u>1,811,941</u>	<u>97,346</u>
United States				
Alaska	387,075	295,057	—	—
North Dakota	186,572	72,614	—	—
Utah	3,166	167	—	—
Wyoming	81,324	41,942	—	—
United Kingdom				
Offshore	50,026	10,005	—	—
Onshore	874,575	437,288	—	—
Total acreage at September 30, 1973	<u>14,260,523</u>	<u>3,505,217</u>	<u>1,811,941</u>	<u>97,346</u>
Total acreage at September 30, 1972	<u>12,593,375</u>	<u>2,911,425</u>	<u>1,812,168</u>	<u>96,290</u>



Scurry - Rainbow Oil Limited
And Subsidiary Companies
OIL & GAS ACREAGE HOLDING





FIVE YEAR OPERATING SUMMARY

		1973	1972	1971	1970	1969
Oil and Gas Production	Crude oil					
	Net barrels for the year	2,635,000	2,701,000	2,705,000	2,713,000	2,484,000
	Average per day	7,220	7,380	7,410	7,430	6,805
	Natural gas					
	Net mcf for the year	4,702,000	4,606,000	4,874,000	3,847,000	3,643,000
	Average per day	12,885	12,585	13,355	10,540	9,980
Wells Drilled on Company Acreage	Total gross wells					
	Successful oil and gas wells ..	37	41	44	36	43
	Wells dry and abandoned	40	31	38	42	58
	Net working interest wells					
	Successful oil and gas wells ..	4	4	2	6	12
	Wells dry and abandoned	11	3	3	10	15
	Net royalty interest wells					
	Successful oil and gas wells ..	9	11	10	12	12
	Wells dry and abandoned	8	14	14	16	21
Producing Oil and Gas Wells	Total gross wells					
	Unitized wells	4,800	4,707	4,627	4,180	4,006
	Non-unitized wells	545	550	542	613	598
	Net working interest wells					
	Oil wells	205	211	212	213	210
	Gas wells	27	25	23	23	22
	Net royalty interest wells					
	Oil wells	220	216	210	216	212
	Gas wells	16	15	13	10	7
Land Holdings	Total gross acreage	14,538,000	12,868,000	10,224,000	11,125,000	12,772,000
	Net acreage					
	Working interest acreage	3,505,000	2,911,000	2,946,000	2,787,000	3,739,000
	Mineral acreage	1,812,000	1,812,000	1,810,000	1,809,000	1,809,000
	Royalty interest acreage	97,000	96,000	102,000	102,000	102,000
	Mining acreage	217,000	221,000	267,000	730,000	1,128,000

FINANCIAL

The financial highlights of Scurry-Rainbow's operations for the year ended September 30, 1973 were a 15% increase in gross revenue, a 26% improvement in cash flow and a 3½-fold increase in net earnings over the previous year. Both the gross revenue and cash flow totals for 1973 represent new records while the 1973 earnings performance is a significant recovery from the sharp decline experienced a year ago and represents a return to the \$1 million earnings level previously enjoyed by the Company.

Gross revenue in 1973 totalled \$9,895,000 which is an increase of \$1,292,000 over 1972. Additional sales revenue, mainly due to higher selling prices for crude oil, provided \$1,044,000 of the gross revenue increase and additional income from investment of surplus funds and other sources contributed \$248,000 to the total revenue improvement. An increase of \$48,000 in administrative expenses was partially offset by reductions in interest charges and production costs with the result that cash flow rose \$1,251,000 to a record high of \$6,078,000 in 1973.

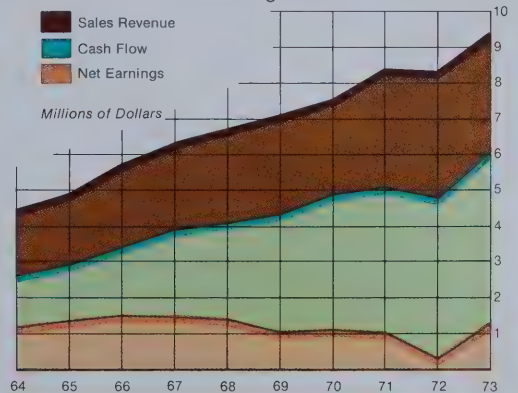
Depletion and depreciation provisions on oil and gas properties were only \$38,000 higher than for 1972 in spite of a heavy capital expenditure program during the year. The realization of a \$228,000 profit (as opposed to a \$119,000 loss in 1972) on property disposals offset a substantial portion of the \$555,000 increase in mining property abandonments and with the benefit of the cash flow improvement, net earnings advanced \$1,003,000 to a total of \$1,295,000 for 1973. On a per-share basis, the 1973 earnings were equivalent to 50¢, up 39¢ over the per-share earnings of 11¢ recorded in the preceding fiscal year.

Capital expenditures reached the highest level in four years, increasing 46% over 1972 to a total of \$7,249,000 for the year ended September 30, 1973. Oil and gas outlays totalled \$5,695,000, up \$1,952,000 from 1972 primarily as a result of increased spending on acreage acquisitions and exploratory drilling in both foreign and domestic jurisdictions during 1973. The Marten Hills area of Alberta and the Eagle-Cecil Lake fields in British Columbia absorbed a large portion of the domestic expenditures while the States of North Dakota and Wyoming and the Yorkshire-Lincolnshire Counties in England accounted for most of the foreign oil and gas outlays. Mining expenditures totalled \$1,544,000, up \$436,000

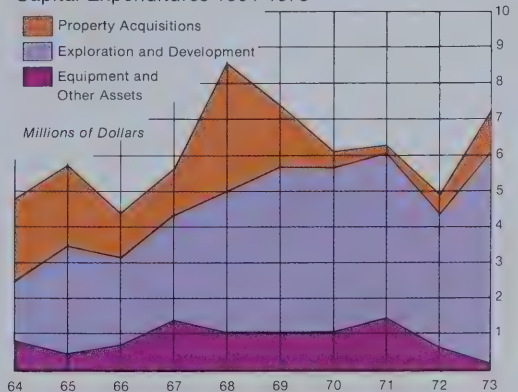
from 1972 with lower outlays on the Company's coal holdings in Alberta and British Columbia being more than offset by sizeable exploration programs on base metal properties in the Yukon Territory and in Mexico.

The Company has maintained a sound financial position closing the fiscal year with \$7,569,000 in working capital, down only \$247,000 from the previous year end. Although capital spending exceeded cash flow during 1973, proceeds from various property disposals and other sources totalling \$1,212,000 enabled the Company to meet its commitments without depleting existing financial resources. In addition to retaining a strong working capital position, the Company has maintained its \$15,000,000 line of bank credit and has no significant amounts of debt retirement due until November, 1976.

Sales - Cash Flow - Earnings 1964 - 1973



Capital Expenditures 1964-1973



Capital Expenditures	1973	1972
Oil and gas properties	\$5,694,596	\$3,742,621
Mining properties	1,543,949	1,108,253
Other capital assets	10,366	97,354
Total capital expenditures	<u>\$7,248,911</u>	<u>\$4,948,228</u>
 Oil and Gas Expenditures	 1973	 1972
Acreage acquisitions	\$1,067,076	\$ 535,125
Exploratory and development drilling	2,297,612	683,030
Geological and geophysical exploration	668,888	542,539
Rentals and other carrying charges	1,411,198	1,390,472
	<u>5,444,774</u>	<u>3,151,166</u>
Production equipment	249,822	591,455
Total oil and gas expenditures	<u>\$5,694,596</u>	<u>\$3,742,621</u>
 Mining Expenditures	 1973	 1972
Property acquisitions	\$ 62,799	\$ 84,875
Exploration	1,174,575	579,748
Rentals and other carrying charges	306,575	443,630
Total mining expenditures	<u>\$1,543,949</u>	<u>\$1,108,253</u>

AUDITORS' REPORT

To the Shareholders of Scurry-Rainbow Oil Limited:

We have examined the consolidated balance sheet of Scurry-Rainbow Oil Limited and subsidiary companies as at September 30, 1973 and the consolidated statements of earnings and retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1973 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
December 7, 1973

PRICE WATERHOUSE & CO.
Chartered Accountants

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

	Year ended September 30	
	1973	1972
Sales, less royalties	\$ 8,251,659	\$ 7,335,047
Royalty income	1,133,760	1,005,987
Investment income	417,018	208,885
Other income	92,580	53,426
	<u>9,895,017</u>	<u>8,603,345</u>
Production expenses	1,829,299	1,830,730
Administrative and general expenses	637,375	589,196
Interest on long-term debt	1,350,445	1,356,750
	<u>3,817,119</u>	<u>3,776,676</u>
Cash flow from operations	<u>6,077,898</u>	<u>4,826,669</u>
Depletion and depreciation	4,364,414	4,326,333
Mining properties abandoned	671,966	116,789
Loss (profit) on asset disposals	(227,933)	119,237
Amortization of deferred charges	47,757	42,101
Minority interests	(73,124)	(70,156)
	<u>4,783,080</u>	<u>4,534,304</u>
Net earnings for the year (Note 6)	1,294,818	292,365
Retained earnings at beginning of year	13,611,172	13,318,807
Retained earnings at end of year	<u>\$14,905,990</u>	<u>\$13,611,172</u>
Net earnings per share	<u>50¢</u>	<u>11¢</u>

CONSOLIDATED BALANCE SHEET

ASSETS	September 30	
	1973	1972
CURRENT ASSETS:		
Cash	\$ 7,911,107	\$ 6,100,425
Government bonds, at cost	87,682	104,433
Accounts receivable	1,987,333	3,378,041
Inventory of materials and supplies, at cost	143,143	68,453
Prepaid expenses	86,732	175,049
	<u>10,215,997</u>	<u>9,826,401</u>
INVESTMENTS AND OTHER ASSETS:		
Investments, at cost (Note 2)—		
Shares of 50% owned company	2,211,830	2,211,830
Shares of associated company	1,198,056	1,198,056
Securities of other companies	270,563	270,563
Deposits and advances	294,243	243,303
	<u>3,974,692</u>	<u>3,923,752</u>
CAPITAL ASSETS, at cost (Note 3):		
Petroleum and natural gas and other mineral interests	63,675,080	58,566,489
Less: Accumulated depletion	(27,878,220)	(24,277,250)
Mining properties, non-producing	11,694,826	11,022,843
Land	963,174	1,335,390
Production equipment	9,412,439	9,228,975
Buildings and other equipment	1,470,698	1,474,268
Less: Accumulated depreciation	(5,456,182)	(4,891,518)
	<u>53,881,815</u>	<u>52,459,197</u>
DEFERRED CHARGES:		
Organization and share issue expense	266,458	271,320
Debt issue costs, less amortization	431,341	460,918
Other charges, less amortization	164,343	54,134
	<u>862,142</u>	<u>786,372</u>
	<u><u>\$68,934,646</u></u>	<u><u>\$66,995,722</u></u>

LIABILITIES

September 30

1973**1972****CURRENT LIABILITIES:**

Accounts payable	\$ 2,071,781	\$ 1,408,005
Accrued interest	510,715	510,798
Long-term debt due within one year	64,279	91,963
	<u>2,646,775</u>	<u>2,010,766</u>

LONG-TERM DEBT:

Bank loan at current rate of interest (secured), repayable \$8,000 per quarter	—	48,000
Non-interest bearing advances under exploration agreement due October 1, 1979	381,000	381,000
6¾%, 7% and 9% mortgages due 1976 to 1981, repayable \$9,146 per month including interest	601,597	661,560
7¼% convertible subordinated debentures due May 1, 1988 (Note 4)	16,874,000	16,874,000
	<u>17,856,597</u>	<u>17,964,560</u>
Less: Amounts due within one year	64,279	91,963
	<u>17,792,318</u>	<u>17,872,597</u>

MINORITY INTERESTS in subsidiary companies	2,612,945	2,686,069
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SHAREHOLDERS' EQUITY (Note 5):

Share capital – Authorized – 7,500,000 shares, par value \$3.50 each Issued – 2,611,761 shares	9,141,164	9,106,164
Contributed surplus	21,835,454	21,708,954
Retained earnings	14,905,990	13,611,172
	<u>45,882,608</u>	<u>44,426,290</u>

APPROVED ON BEHALF OF THE BOARD:

PETER ABT, Director

J. F. LANGSTON, Director

\$68,934,646**\$66,995,722**

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

	Year ended September 30	
	1973	1972
SOURCE OF FUNDS:		
Cash flow from operations	\$ 6,077,898	\$ 4,826,669
Sale of resource properties	419,542	3,848,207
Sale of other capital assets	598,304	276,875
Issuance of Company stock	161,500	—
Other sources	32,597	26,602
	<u>7,289,841</u>	<u>8,978,353</u>
Add: Funds at beginning of year	7,907,598	4,005,060
	<u>15,197,439</u>	<u>12,983,413</u>
USE OF FUNDS:		
Acquisition of resource properties	1,129,875	620,000
Exploration and development	5,858,848	3,639,419
Purchase of equipment and other capital assets	260,188	688,809
	<u>7,248,911</u>	<u>4,948,228</u>
Retirement of long-term debt	107,963	87,939
Other purposes	207,064	39,648
	<u>7,563,938</u>	<u>5,075,815</u>
Funds remaining at end of year	7,633,501	7,907,598
Less: Long-term debt due within one year	64,279	91,963
Working capital at end of year	<u>\$ 7,569,222</u>	<u>\$ 7,815,635</u>

1. BASIS OF CONSOLIDATION:

The consolidated financial statements include the accounts of all subsidiaries. All of the Company's principal subsidiaries are wholly-owned except for Scurry-Rainbow Oil (Sask) Ltd. which is 94.5% owned and Plains Petroleum Limited which is 50.7% owned.

The excess of the cost of shares in subsidiaries over their underlying book value at dates of acquisition has been applied to petroleum and natural gas and other mineral interests and depletion is provided thereon.

2. INVESTMENTS:

The Company's equity in the net assets of the 50% owned company, Minerals Ltd., at September 30, 1973 amounted to \$715,729 of which \$477,505 represents its share of undistributed earnings since date of acquisition. Dividends totalling \$450,000 have been received from Minerals Ltd. in prior years and all such dividends have been included in consolidated earnings under the cost basis of investment accounting. The equity method of accounting will be followed for this investment from October 1, 1973 and, as a result of retroactive amortization of the share acquisition cost, the carrying value of the Company's investment in Minerals Ltd. will be written down to \$1,760,574 with no material effect on consolidated net earnings for the 1973 fiscal year.

The investment in shares of the associated company represents a 27.7% interest in Cascade Molybdenum Mines Ltd. (N.P.L.) (quoted market value of \$70,337), a non-producing mining company which is managed by the Company.

3. CAPITAL ASSETS:

The companies follow the full cost method of accounting for petroleum and natural gas and other mineral interests whereby all costs incurred for the exploration and development of oil and gas reserves and other mineral reserves within the same properties, including exploration overhead, are capitalized whether productive or unproductive and proceeds

on disposal of properties are ordinarily deducted from costs without recognition of profit or loss. Depletion is computed on the total of all such costs by the unit of production method based on the total estimated reserves of oil, gas and other saleable products, including potash royalty reserves which are situated within unitized areas operated by other companies. Depreciation of production equipment is computed on related reserves in a similar manner.

The costs of mining properties, consisting of coal properties, potash leases, sulphur properties and other mining claims, include exploration charges, preliminary development expenditures and related overhead, all of which are capitalized on an area basis. Abandoned mining properties are written off when all properties in an area are surrendered.

4. DEBENTURE DEBT:

The 7¼% convertible subordinated debentures are convertible into shares of the Company at any time before May 1, 1978 at \$33⅓ per share and are subject to sinking fund requirements of \$1,067,000 annually on November 1 until 1987. Converted debentures may be applied by the Company against its sinking fund obligations and the first instalment of \$1,067,000 due November 1, 1973 has been satisfied in this manner leaving \$2,059,000 of converted debentures available for offsetting future sinking fund requirements.

5. SHAREHOLDERS' EQUITY:

The changes in issued share capital and contributed surplus during the year ended September 30, 1973 are summarized below:

	Number of shares	Share capital (par value)	Contributed surplus
Balance at Sept. 30, 1972 ..	2,601,761	\$9,106,164	\$21,708,954
Issued for cash upon exercise of employee stock options	10,000	35,000	126,500
Balance at Sept. 30, 1973 ..	<u>2,611,761</u>	<u>\$9,141,164</u>	<u>\$21,835,454</u>

At September 30, 1973 a total of 616,220 shares were reserved for issuance as follows: 110,000 shares under the provisions of a stock option plan for officers and key employees and 506,220 shares upon conversion of the 7¼% convertible subordinated debentures.

The Company's stock option plan provides for the granting of options covering an aggregate of 120,000 shares to officers and key employees for terms of five years at prices not less than 95% of the market value of the Company's shares. Transactions under the stock option plan during the year ended September 30, 1973 are summarized below:

	Option price per share	Shares under option	Shares available for option
Balance at Sept. 30, 1972	\$32.30 - 36.58	45,000	75,000
Options surrendered	\$32.30 - 36.58	(45,000)	45,000
Options granted	\$16.15	78,000	(78,000)
Options exercised	\$16.15	(10,000)	—
Balance at Sept. 30, 1973	\$16.15	<u>68,000</u>	<u>42,000</u>

The outstanding options expire on April 17, 1978 and are exercisable currently as to 46,000 shares, from April 17, 1974 as to an additional 11,000 shares and from April 17, 1975 as to the remaining 11,000 shares.

The Trust Indenture under which the 7¼% convertible subordinated debentures have been issued contains certain dividend restrictions providing essentially that dividends may be paid only to the extent of consolidated net earnings accumulated subsequent to January 31, 1968 and the net consideration received from the issue of the Company's shares after January 31, 1968.

6. INCOME TAXES:

Under Canadian income tax law, domestic and with-in certain limitations foreign exploration and development expenditures, including resource property acquisition costs, are deducted in computing income as incurred, or if such expenditures exceed income for the year, the excess is carried forward and applied as income becomes available. As a result of such deductions, no income taxes were

payable for the 1973 fiscal year and at September 30, 1973 the companies had approximately \$9,500,000 of unclaimed exploration and development expenditures to be applied against income in future years. For tax purposes, the companies have claimed less depreciation than the corresponding amounts recorded in the accounts to September 30, 1973 and at that date the companies had approximately \$8,000,000 of depreciable costs available for tax purposes in future years.

Under the deferred tax accounting concept, provisions for income taxes are required on the excess of amounts claimed for tax purposes over the related depletion, depreciation and other charges recorded in the accounts on the premise that such taxes will become payable in future years when recorded charges exceed the amounts available for tax purposes. Management, however, does not consider that it is appropriate to provide for deferred income taxes with respect to exploration and development expenditures and, while this view differs from the recommendation of the Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants, it conforms with the general practice in the oil and gas industry and is accepted by accounting authorities outside Canada. If the deferred tax accounting concept had been followed, the companies' provisions for deferred income taxes, net of reductions resulting from depreciation recorded in excess of depreciation claimed for tax purposes, would have been \$1,007,000 for the 1973 fiscal year (\$585,000 for 1972) and \$9,178,000 on a cumulative basis to September 30, 1973.

The question of applying deferred tax accounting to exploration and development expenditures is the subject of a current study which has been undertaken by representatives of the oil and gas industry at the instance of Canadian provincial securities commissions. This study is to be completed by February 28, 1974 and the Company's future policy with respect to deferred tax accounting will be determined at that time.

7. STATUTORY INFORMATION:

The aggregate direct remuneration paid by the Company and its subsidiaries to all directors and senior officers of the Company was \$236,640 for the year ended September 30, 1973.

◀ **TEN YEAR FINANCIAL SUMMARY**

At September 30, 1973 a total of 616,220 shares were reserved for issuance as follows: 110,000 shares under the provisions of a stock option plan for officers and key employees and 506,220 shares upon conversion of the 7¼% convertible subordinated debentures.

The Company's stock option plan provides for the granting of options covering an aggregate of 120,000 shares to officers and key employees for terms of five years at prices not less than 95% of the market value of the Company's shares. Transactions under the stock option plan during the year ended September 30, 1973 are summarized below:

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7. STATUTORY INFORMATION:

The aggregate direct remuneration paid by the Company and its subsidiaries to all directors and senior officers of the Company was \$236,640 for the year ended September 30, 1973.

TEN YEAR FINANCIAL SUMMARY

		1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Earnings Statement	Sales revenue	\$ 9,385,000	\$ 8,341,000	\$ 8,393,000	\$ 7,588,000	\$ 7,120,000	\$ 6,750,000	\$ 6,339,000	\$ 5,770,000	\$ 4,992,000	\$ 4,463,000
	Other income	510,000	262,000	327,000	603,000	571,000	460,000	323,000	448,000	193,000	400,000
	Gross revenue	9,895,000	8,603,000	8,720,000	8,191,000	7,691,000	7,210,000	6,662,000	6,218,000	5,185,000	4,863,000
	Operating expenses	2,467,000	2,419,000	2,294,000	1,959,000	2,025,000	1,968,000	1,633,000	1,612,000	1,470,000	1,592,000
	Interest on long-term debt	1,350,000	1,357,000	1,334,000	1,309,000	1,321,000	1,162,000	1,072,000	1,173,000	772,000	631,000
	Cash flow	6,078,000	4,827,000	5,092,000	4,923,000	4,345,000	4,080,000	3,957,000	3,433,000	2,943,000	2,640,000
	Depletion, depreciation and other charges – net	4,783,000	4,535,000	4,091,000	3,824,000	3,340,000	2,715,000	2,529,000	1,954,000	1,617,000	1,461,000
	Net earnings	1,295,000	292,000	1,001,000	1,099,000	1,005,000	1,365,000	1,428,000	1,479,000	1,326,000	1,179,000
	Amounts per share*										
	Cash flow	2.34	1.86	1.96	1.89	1.69	1.66	1.88	1.70	1.49	1.38
Net earnings	.50	.11	.38	.42	.39	.56	.68	.73	.67	.61	
Capital Expenditures	Acquisition of property	1,130,000	620,000	231,000	408,000	1,631,000	3,528,000	1,209,000	1,159,000	2,120,000	2,192,000
	Exploration and development	5,859,000	3,639,000	4,572,000	4,607,000	4,721,000	3,996,000	3,028,000	2,460,000	3,186,000	1,751,000
	Production equipment	250,000	592,000	519,000	1,021,000	686,000	852,000	1,262,000	687,000	316,000	846,000
	Other capital assets	10,000	97,000	1,010,000	68,000	357,000	229,000	153,000	93,000	133,000	10,000
	Total expenditures	7,249,000	4,948,000	6,332,000	6,104,000	7,395,000	8,605,000	5,652,000	4,399,000	5,755,000	4,799,000
Balance Sheet	Current assets	10,216,000	9,827,000	5,475,000	5,632,000	5,230,000	7,518,000	5,394,000	7,457,000	3,540,000	3,790,000
	Current liabilities	2,647,000	2,011,000	1,558,000	1,799,000	2,184,000	1,737,000	3,313,000	2,335,000	2,746,000	3,012,000
	Working capital	7,569,000	7,816,000	3,917,000	3,833,000	3,046,000	5,781,000	2,081,000	5,122,000	794,000	778,000
	Investments and advances	3,975,000	3,924,000	3,912,000	4,381,000	4,389,000	4,619,000	4,675,000	3,397,000	2,781,000	3,515,000
	Capital assets – net	53,882,000	52,459,000	56,199,000	54,133,000	53,492,000	47,830,000	41,899,000	38,698,000	36,099,000	30,656,000
	Deferred charges	862,000	786,000	827,000	869,000	909,000	1,007,000	391,000	626,000	372,000	365,000
	Capital employed	66,288,000	64,985,000	64,855,000	63,216,000	61,836,000	59,237,000	49,046,000	47,843,000	40,046,000	35,314,000
	Long-term debt – net	17,792,000	17,873,000	17,965,000	17,279,000	16,986,000	18,514,000	12,828,000	18,818,000	13,943,000	11,192,000
	Minority interests in subsidiaries	2,613,000	2,686,000	2,756,000	2,803,000	2,815,000	2,803,000	2,555,000	2,515,000	2,395,000	1,910,000
	Shareholders' equity	\$45,883,000	\$44,426,000	\$44,134,000	\$43,134,000	\$42,035,000	\$37,920,000	\$33,663,000	\$26,510,000	\$23,708,000	\$22,212,000
	Shares outstanding										
	At the year end	2,611,761	2,601,761	2,601,761	2,601,761	2,601,761	2,504,112	2,398,542	2,092,792	1,989,677	1,977,183
Average for the year*	2,602,829	2,601,761	2,601,761	2,601,761	2,577,663	2,458,258	2,108,149	2,025,076	1,980,274	1,918,060	

